Total Petroleum (North America) Ltd.
1975 Annual Report

AR09



TOTAL

Profile & Contents

COMPANY PROFILE

Total Petroleum (North America) Ltd., ("TOPNA") is engaged in expanding exploration and production activities in Canada and the United States with exploration and production offices in Calgary, Alberta and Houston, Texas. TOPNA owns and operates a refinery in Alma, Michigan and crude and product pipelines in that state. TOTAL markets gasoline, fuel oils, asphalts and other petroleum products to retail, wholesale and industrial customers primarily in Michigan.

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Directors and Officers — Inside back cover

Cover by Susan Goethel, art student at Alma College. This drawing won 1st prize in a contest sponsored by Total at Alma College.

Highlights

OPERATING	1975	1974
Proven oil and condensate reserves (bbls.)	32,914,333	32,362,601
Oil and condensate production (bbls.)	2,224,635	2,307,534
Proven gas reserves (M cubic feet)	203,859,000	197,305,000
Natural gas sales (M cubic feet)	7,983,280	6,469,466
Crude oil refined (bbls.)	13,728,523	13,493,860
Refined product sales (bbls.)	16,328,738	15,753,571
FINANCIAL		
Net earnings	$ 8,998,000	$ 1,868,000
Earnings per share	$.70	$.10
Financial resources provided by operations (*)	$ 25,685,000	$ 11,014,000
Total revenues and other income	$248,010,000	$219,386,000
Shareholders' equity	$105,206,000	$ 97,054,000
Total assets	$195,293,000	$185,504,000

* Net income plus income charges not affecting working capital in the year. Refer to Consolidated Statements of Changes in Financial Position for other sources and uses of resources.

MARKET AND DIVIDEND INFORMATION

The principal markets for each class of the Company's securities entitled to vote at the Annual Meeting are the Toronto Stock Exchange in Canada and the American Stock Exchange in the United States. A dividend of 17½¢ (U.S.) per share was paid on the Preferred Series A shares for each quarterly period within the two most recent fiscal years. The high and low sales prices of the Common and Preferred Series A shares of the Company during such quarterly period were as follows:

TORONTO STOCK EXCHANGE

		Common (TPN)				*Preferred Series A (TPN.PR.A.)*			
	Quarter	1	2	3	4	1	2	3	4
1974	High	10 3/8	9 3/8	8 5/8	6 3/4	20 1/2	18 3/4	17 1/4	13 5/8
	Low	6 1/2	6 3/4	5 1/8	3 9/16	14 1/4	14	10 3/4	8 1/4
1975	High	6 1/4	8	7 7/8	5 3/4	13 1/8	16 1/8	15 3/4	11 3/4
	Low	4	5 1/4	5 3/8	4.45	9	11 1/4	11 1/2	10 1/4

AMERICAN STOCK EXCHANGE

		Common (TPN)				*Preferred Series A (TPN.PR.A.)*			
	Quarter	1	2	3	4	1	2	3	4
1974	High	10 5/8	9 5/8	8 3/4	7	21 1/4	19 1/8	17 1/2	13 3/4
	Low	6 9/16	7 1/16	5 1/4	3 5/8	14	14 1/8	11 1/4	8 3/8
1975	High	6 1/4	8	8 1/8	5 1/2	12 7/8	15 1/2	16	11 1/2
	Low	3 15/16	5 1/8	5 1/4	4 3/8	8 7/8	11	11	10 1/8

Letter to the Shareholders

February 16, 1976

During the year 1975, your Company's performance improved significantly in all areas of operations.

Net income for the year was $8,998,000, or 70¢ per share, compared to $1,868,000, or 10¢ per share in 1974. This level of earnings amounts to approximately 9% return on equity.

Income from production continued its steady growth, due to increasing oil and gas prices and increasing gas production. Most of the sharp increase in earnings in 1975 came from refining and marketing operations. Net income from refining and marketing, after allocation of general and administrative expenses and income taxes, was still less than one cent per gallon, however.

These improvements were achieved in a political and regulatory environment of relative stability, following the chaotic adjustments of 1974.

In Canada, the Federal and Provincial governments somewhat alleviated the tax and royalty burden imposed in previous years. Crude oil prices were allowed to increase at July 1 from about $6.50 to $8.00 per barrel. A further increase is expected in 1976. More significantly, the average price of gas more than doubled in 1975 as compared with 1974. This created a renewed incentive for the exploration of attractive gas prospects which had been postponed, but will now be drilled in 1976.

In the United States, the Industry operated for the whole year under the "Emergency Petroleum Allocation Act of 1973" and all the regulations deriving from it. On December 22, the President signed the "Energy Policy and Conservation Act", the chief provisions of which went into effect on February 1, 1976.

The main regulations affecting the Company's operations in 1975 pertained to crude oil allocation, crude oil cost equalization, refined product allocation, and product pricing. The crude oil cost equalization, or "old oil entitlements" program was essential to correct the inequities created by a two-tier price system for refiners, such as TOTAL, having limited access to price controlled "old oil".

The product allocation and product pricing regulations were already obsolete when the year began, with abundant product supply and prices increasingly determined by competition in the marketplace. These regulations continued to impose a heavy administrative burden on the Company's marketing and administrative staff.

The new "Energy Policy and Conservation Act" is being gradually implemented by the Federal Energy Administration. Its major feature is the continuation of crude price controls until 1979, resulting in the imposition of a ceiling on the price of previously uncontrolled "new oil". This will affect your Company in several ways:

- First, reduce per barrel revenue from the Company's new oil production in Michigan. This negative effect on income will be more than offset by production from wells drilled in 1975.
- Second, create a "three-tier" price system (old, new, imported). This will necessitate the continuation of an adjusted "entitlements program" to correct crude cost inequities among refiners.

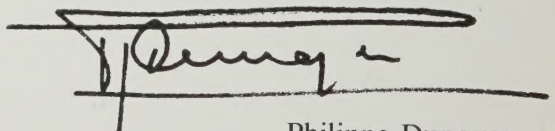
The Energy Policy and Conservation Act gives the Administration authority to phase out product pricing and allocation regulations, subject to certain conditions. Your Company strongly supports this objective, for the reasons indicated in an earlier paragraph.

Another governmental decision will significantly affect your Company in 1976, that is, the accelerated reduction of exports of crude oil from Canada to the United States. This development had been anticipated over the past few years and alternative solutions are gradually being developed to ensure continued supply of the Alma refinery.

In addition to conducting the operations further described in this Annual Report, your Management devoted a great deal of time and effort in 1975 towards the acquisition of Hanover Petroleum Corporation, which is expected to be approved by the shareholders of both companies in April of 1976. Hanover Petroleum Corporation is an independent exploration and production company with offices in New York and Dallas. Its merger with your Company will accomplish several basic objectives:

- generate increased profits and cash flow
- increase oil and gas reserves and production in the United States
- accelerate the diversification of your Company's exploration interests in the United States
- strengthen your Company's professional staff

The year 1976 will undoubtedly bring further changes in the political and competitive environment in which your Company operates. Your Management feels that the Company has a sound and competitive foundation in all areas of operation from which to respond to changes, and from which to grow and become more successful in future years.



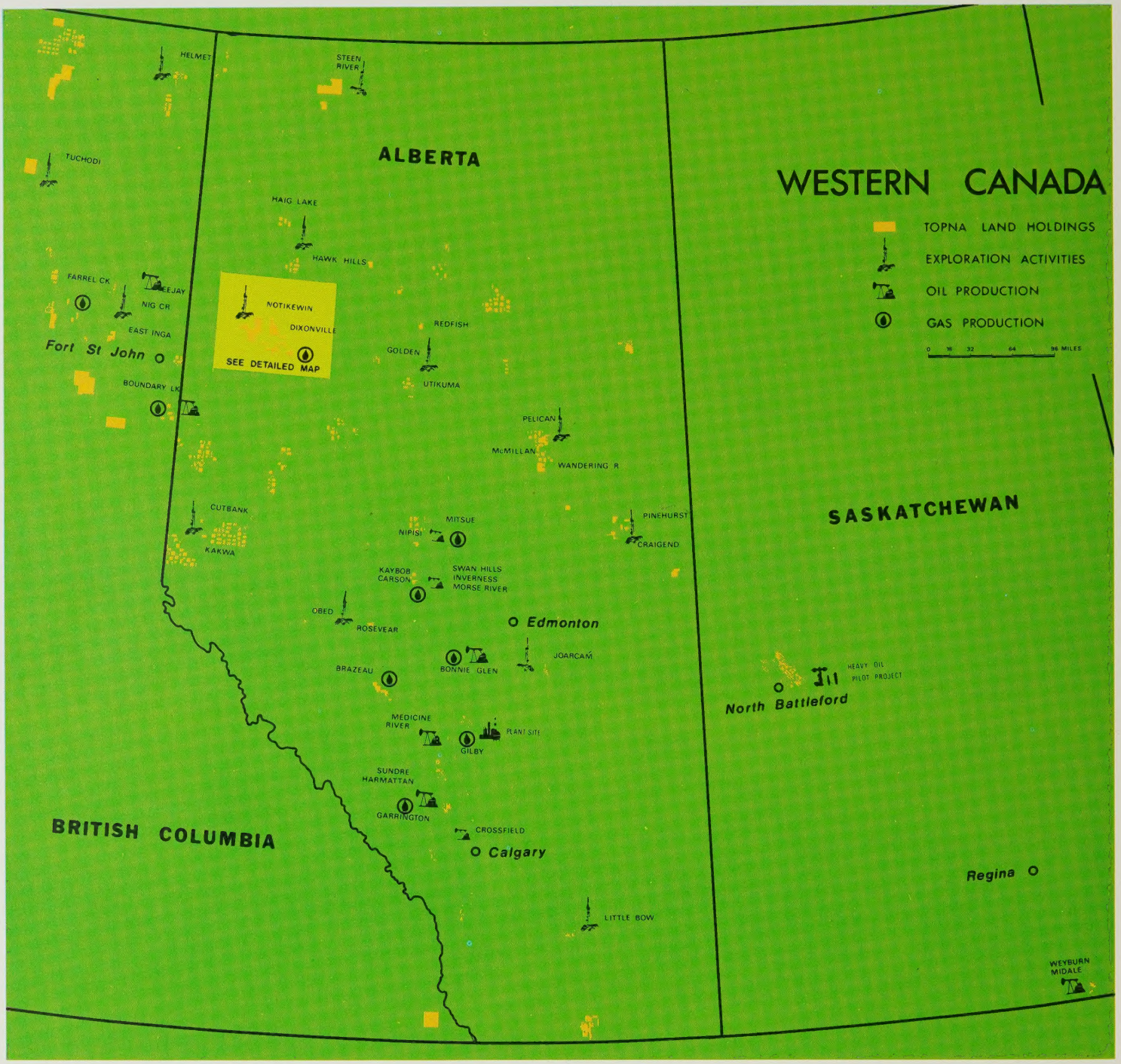
Philippe Dunoyer
President

Exploration & Development

TOPNA drilled or participated in the drilling of forty-six exploratory wells and three development wells during 1975. Interests were also held in eight wells (seven exploratory and one development) drilled under farmout by other companies without cost to TOTAL other than acreage contribution. This drilling program resulted in fifteen exploratory successes (six gas wells and nine oil wells), and four oil development wells. In addition, three tests were suspended at year's end awaiting future testing, whipstocking or deepening.



Western Canada

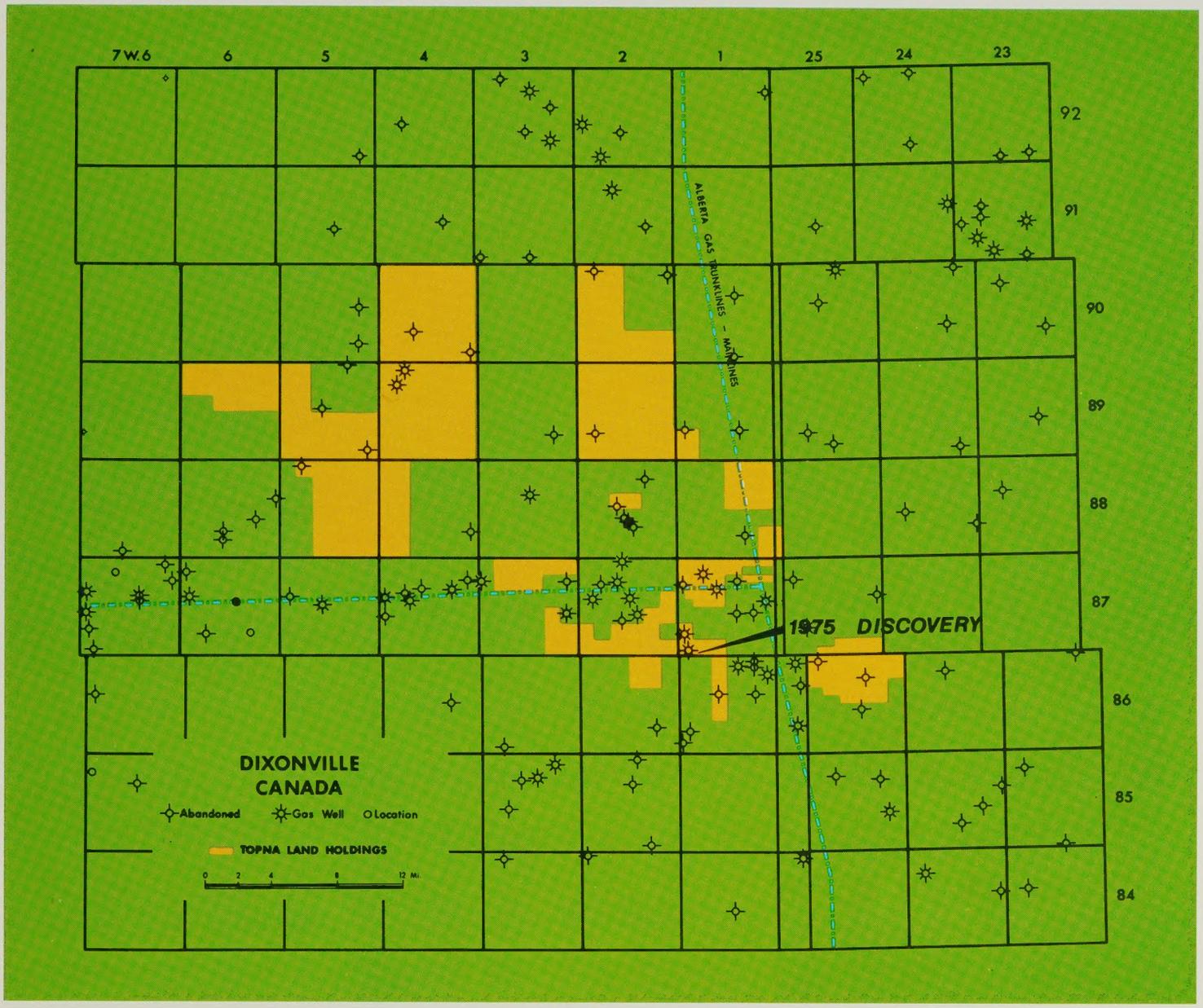


In Western Canada in 1975, TOPNA participated in less than half the number of wells drilled during 1974. Although an exploration and semidevelopment program had been planned, the uncertainties and detrimental effects of royalty and tax measures taken by federal and provincial governments required a re-examination of the situation.

TOPNA participated in ten exploratory wells in Western Canada, which resulted in four gas discoveries. Six other wells were drilled under farmout at no cost to TOPNA but none were successful.

The exploratory gas successes are located in the Craigend, Dixonville, Joarcam and Pelican areas of Alberta where TOPNA has had past successes. Further drilling is planned for these areas. It is anticipated that two of the wells in the Dixonville Field will be placed on production in the near future. The Dixonville area, along with adjoining areas in which TOPNA has substantial land holdings and interests in five gas wells, is illustrated in an accompanying map.

Three development wells were drilled and all were completed as oil wells. One of these, was drilled on a heavy oil prospect and another was supported by acreage contribution on which TOPNA retains an override.



Heavy Oil Recovery

TOPNA participated with Texas Gulf, Inc. (50/50) in an experimental project for the "in situ" recovery of heavy oil from the North Battleford area in Saskatchewan. 2 wells were tested during the summer of 1975 with different rates of vapor injection and subsequent recoveries of heavy oil. After three successive cycles of injection/production (huff and puff) the recovery has reached an oil/steam ratio approaching .20 which is considered promising in this type of reservoir; the daily oil production has reached 50 b/d/well.

CANADA

	1975		1974	
	Gross	Net	Gross	Net
EXPLORATORY WELLS				
(incl. Labrador)				
Oil	—	—	3	1.10
Gas	4	1.95	8	2.35
Dry	8	2.91	19	6.38
Total	12	4.86	30	9.83
Success ratio	33%	40%	37%	35%
DEVELOPMENT WELLS				
Oil	3	2	2	1
Gas	—	—	—	—
Dry	—	—	—	—
Total	3	2	2	1

Labrador



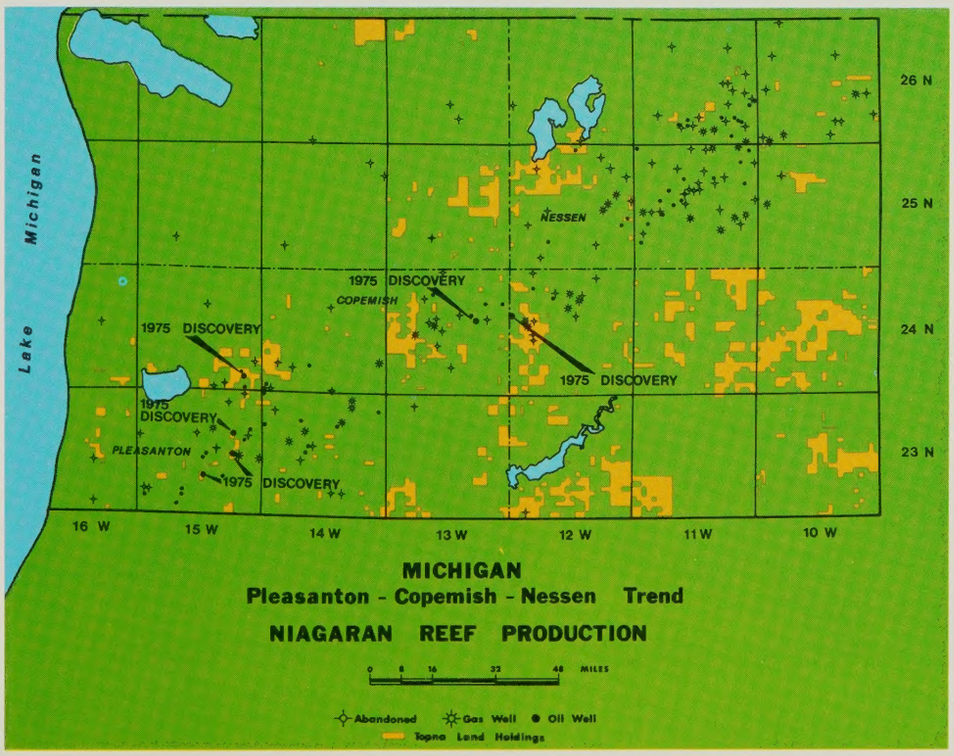
LABRADOR OFFSHORE

In Offshore Labrador, four wells were begun during the 1975 drilling season: two, (Cartier D-70 and Freydis B-87), were abandoned without encountering significant shows and two, (Snorri J-90 and Karlsefni H-13), were suspended at the end of the season and will be re-entered during the 1976 season for testing and deepening. An accompanying map shows the 28,500,000-acre spread of permits in which TOPNA has a 5% interest. A map of the lower peninsula of Michigan has been superimposed to illustrate the size and extent of the land holdings. To date, only six wells have been completed on this vast spread of which two, Bjarni H-81 and Gudrid G-75, tested significant gas flows during 1974. A comprehensive drilling program, utilizing two drillships and one semi-submersible, is planned for 1976.

The drilling ship "Pelican". Equipped with a dynamic positioning system, the "Pelican" can operate in Arctic Seas where the presence of drifting icebergs makes it impossible to utilize conventional drilling vessels.







Michigan exploration during 1975 resulted in several significant discoveries which have doubled the Company's oil and gas reserves in the State: TOPNA participated in the drilling of 21 wells which resulted in 9 oil wells and 2 gas wells. In addition, two wells were drilled in which TOPNA participated by acreage contribution (one of them was a development well). The total number of producing wells in the Northern Niagaran Trend in which TOPNA has an interest is now 34.

In the Pleasanton area of Manistee County, (30 miles northeast of the Hamlin Lake Field) the Baugh wells (1 & 2 - 36) in which TOPNA holds a 60% interest, have been the principal contributors to the reserve increase. An accompanying map shows the Pleasanton area in which TOPNA is quite active and will continue to be so during 1976. In addition to the above-mentioned discoveries TOTAL participated with smaller interests in three other discoveries in the map area.

In the Hamlin Lake area, also illustrated on an accompanying map, TOPNA as of December 31, 1975, had interests in 12 oil wells and four gas wells. Three oil wells were completed during 1975 in this area. One development well was supported by acreage contribution and TOPNA retains an override in the well. These wells are supplying gas and oil to a nearby chemical plant in the City of Ludington.

At the opposite end of the Northern Michigan Reef Trend, some 125 miles to the northeast in Montmorency County, TOPNA participated in a gas discovery at the Stella-Maris No. 1-29 well. This well is also the most easterly reef discovery to date on the Northern Michigan Trend, extending the trend some six miles northeastward and within two miles of the Black River Ranch in which TOPNA holds an interest and plans drilling in the near future.

TOPNA also participated in discoveries in Otsego and Wexford counties along the Northern Trend. In the Illinois Basin, TOPNA continued exploration with a participation in eight wells. All these wells were unsuccessful.

Offshore Gulf Coast

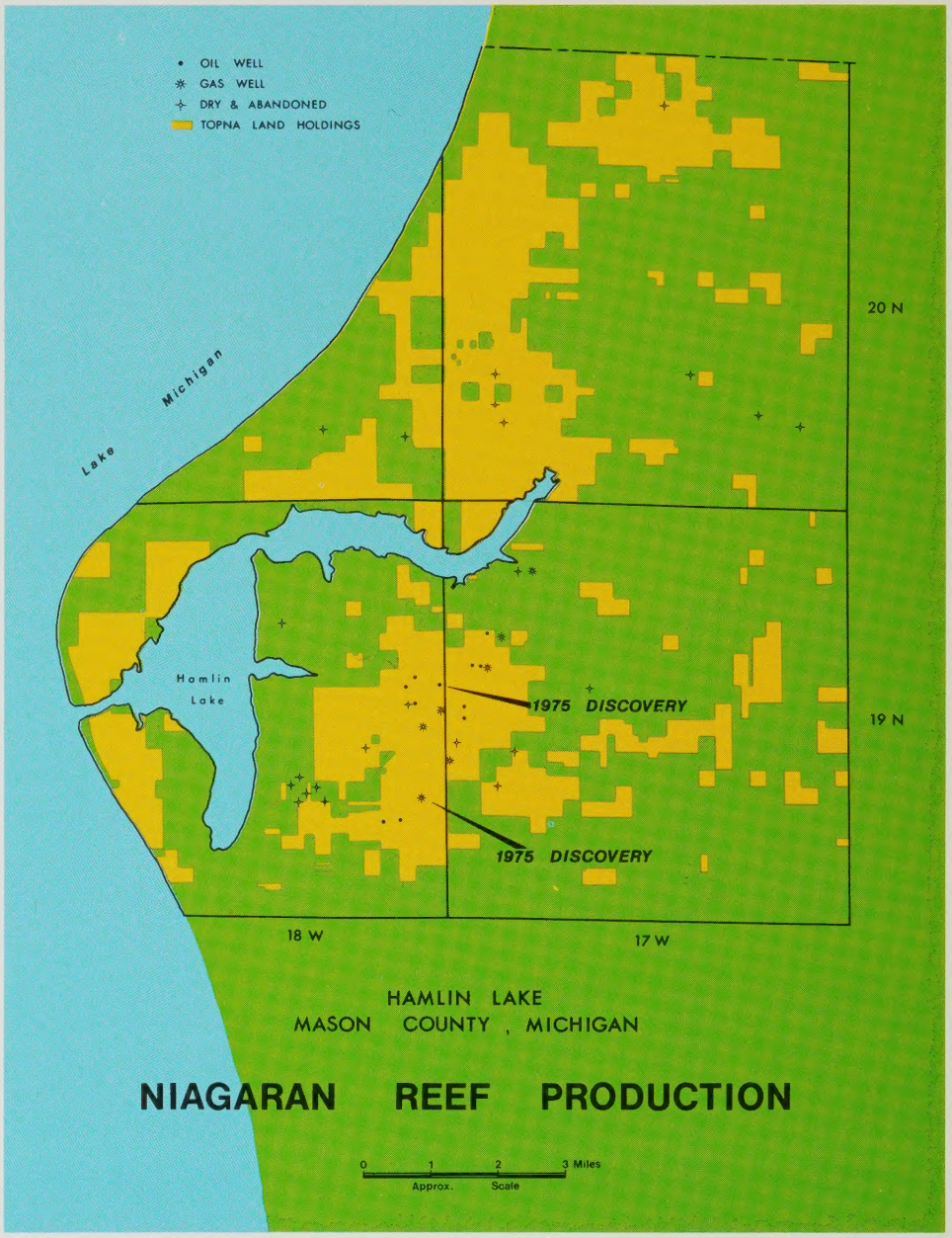
Three test wells undertaken in the offshore Mississippi, Alabama, Florida (MAFLA) area, in which TOPNA participated for 5%, have been abandoned and the acreage relinquished.

TOPNA participated for 10% in the acquisition of four blocks offshore South Texas. Two of these blocks remain untested (blocks 555 and 755). A test well drilled on block 700 indicated a few gas impregnated sands. Block 828 has been partly evaluated by a gas discovery made in adjacent block 831, and a step-out well will be drilled early in 1976 on the border line of the two blocks where TOPNA will participate for 5%.

Southern United States

Three onshore Florida blocks (net 67,537 acres) have been seismically evaluated and several drillable structures have been delineated. TOPNA is seeking partners before drilling on this venture. This is expected to take place during 1976.

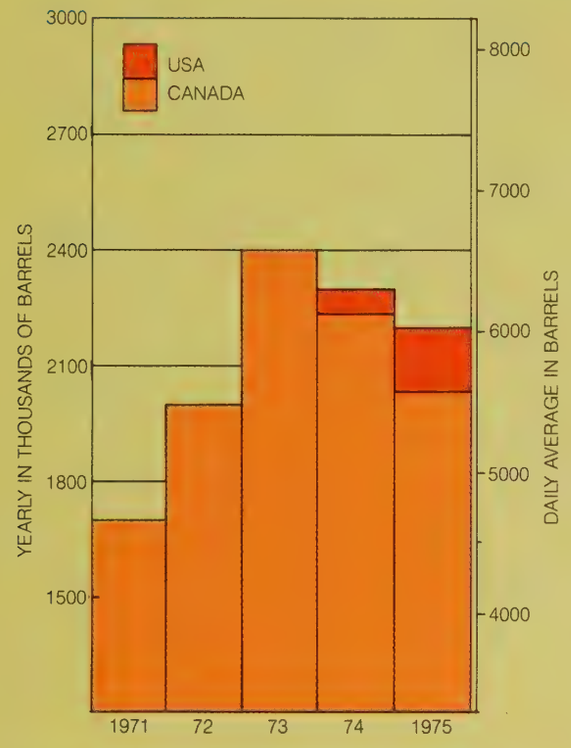
Several small parcels have been acquired in the Anadarko basin of Oklahoma and TOPNA will participate in 1976 in the drilling of a few wells in this area.



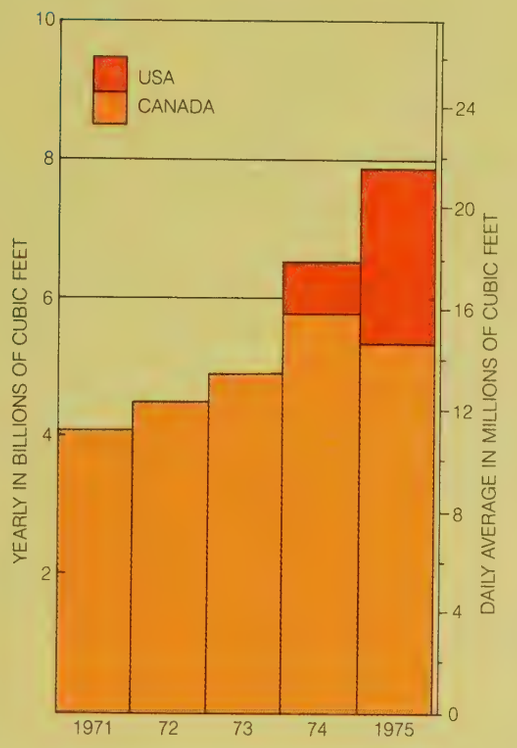
U.S. EXPLORATORY WELLS (Incl. Offshore)	1975 Gross	1975 Net	1974 Gross	1974 Net
Oil	9	4.40	5	1.48
Gas	2	.31	3	1.17
Dry	23	5.51	7	4.58
Total	34	10.22	15	7.23
Success ratio	32%	46%	53%	37%
DEVELOPMENT WELLS				
Oil	—	—	1	.54
Gas	—	—	—	—
Dry	—	—	—	—
Total	—	—	1	.54

Production & Reserves

Oil Production



Natural Gas Sales





Exploratory gas well in the Dixonville area of N.W. Alberta.

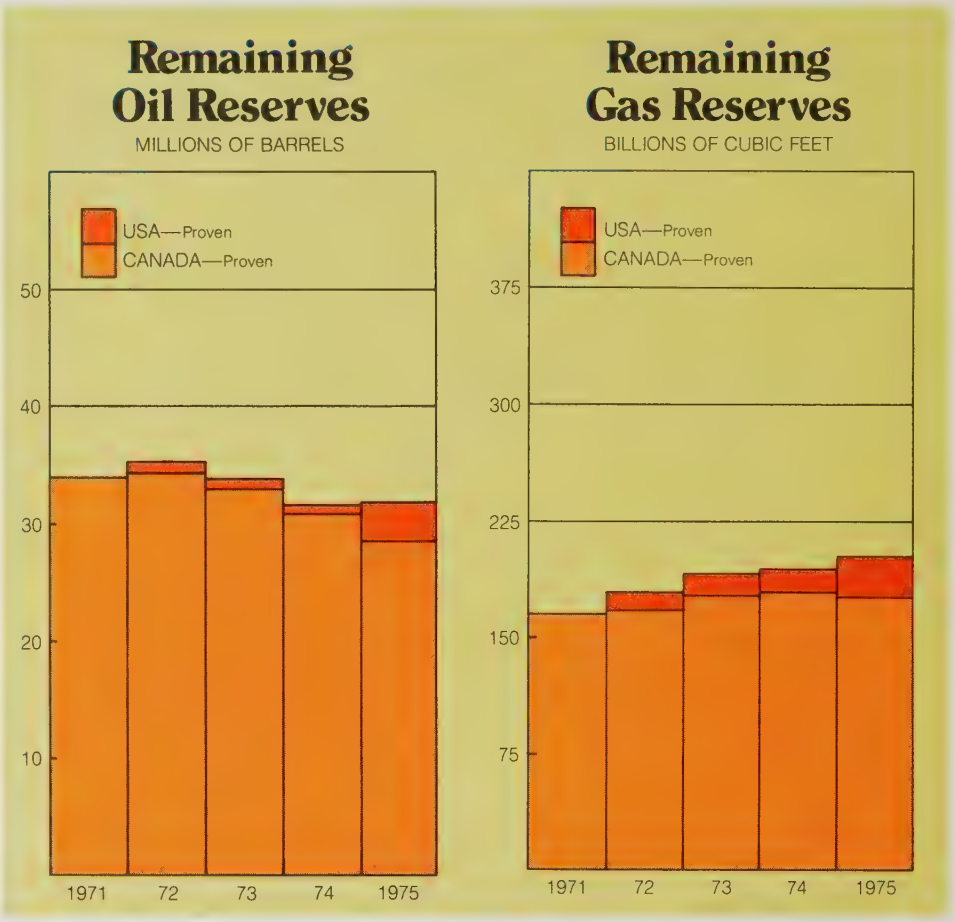
Crude oil and condensate production during 1975 totalled 2,224,635 barrels, an average of 6,095 barrels per day. This represents a decrease of approximately 3.6% from 1974 due mainly to curtailment of Canadian exports to the United States. Natural gas sales increased by approximately 23.4% from 1974 levels, to a total of 7,983 million cubic feet, an average of 21.9 million cubic feet per day. This improvement in gas sales reflects increased production in Michigan.

The Company's estimated proven liquid reserves at the end of 1975 amounted to 32,914,333 barrels, representing an increase of approximately 2% compared to the proven reserve estimate at the end of 1974. Estimated probable additional liquid reserves at the end of 1975 were 6,821,735 barrels compared to 7,532,893 barrels at the end of 1974.

Production & Reserves

Estimated proven gas reserves totalled 203.9 billion cubic feet at the end of 1975 representing an increase of approximately 3% compared to the proven reserve estimate at the end of the previous year. Estimated probable additional gas reserves at the end of 1975 amounted to 68.8 billion cubic feet compared to 71.3 billion cubic feet at the end of 1974.

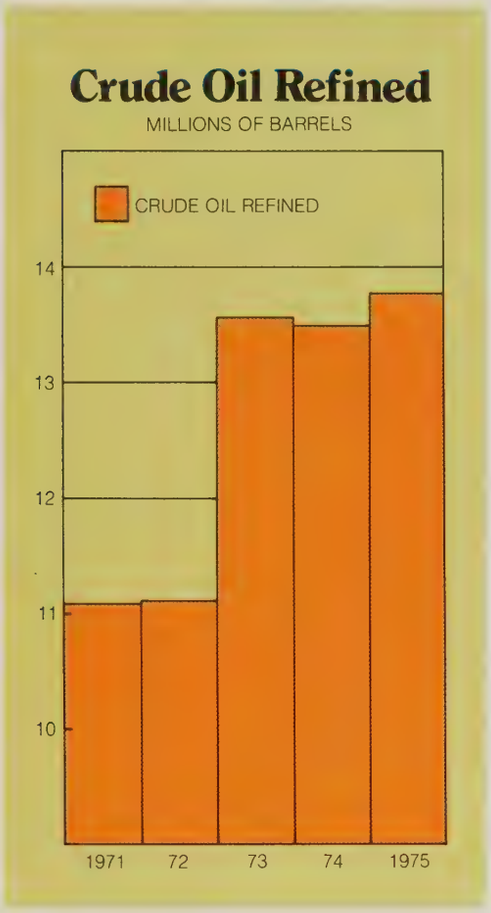
The wellhead prices of oil and gas in Canada and in the United States increased steadily in 1975. In July, the price of oil produced in Canada was raised from an average of $6.50 per barrel to $8.00 per barrel. In November, the price of natural gas produced in Alberta increased from an average of $.45 per MCF to $.95 per MCF. The wellhead prices of oil and gas produced and sold by TOPNA in the United States were uncontrolled and increased by an average of 23% for oil and 14% for gas between January and December 1975.



CONSOLIDATED LAND HOLDINGS AT DECEMBER 31, 1975
(Acres)

	Petroleum and Natural Gas Leases		Reservations, Permits, Licenses		Total	
	Gross	Net	Gross	Net	Gross	Net
British Columbia	364,129	137,876	604,178	227,881	968,307	365,757
Alberta	977,145	543,678	422,897	325,503	1,400,042	869,181
Saskatchewan	104,262	51,025	—	—	104,262	51,025
Northwest Territories	—	—	1,208,688	439,101	1,208,688	439,101
Arctic	—	—	225,446	10,268	225,446	10,268
Yukon	—	—	179,120	82,133	179,120	82,133
Labrador (Offshore)	—	—	28,480,537	1,424,027	28,480,537	1,424,027
Canada	1,445,536	732,579	31,120,866	2,508,913	32,566,402	3,241,492
Florida	90,750	67,537	—	—	90,750	67,537
East Gulf of Mexico (Offshore)	17,280	1,224	—	—	17,280	1,224
Illinois	23,234	10,656	—	—	23,234	10,656
Michigan	398,363	217,944	—	—	398,363	217,944
Montana	50,365	41,875	—	—	50,365	41,875
North Dakota	23,364	23,364	—	—	23,364	23,364
Oklahoma	4,595	3,974	—	—	4,595	3,974
Texas (Offshore)	23,040	2,304	—	—	23,040	2,304
Utah	832,983	138,830	—	—	832,983	138,830
United States	1,463,974	507,708	—	—	1,463,974	507,708
Total	2,909,510	1,240,287	31,120,866	2,508,913	34,030,376	3,749,200

Refining



Crude oil processed by the Alma refinery totaled 13,728,523 barrels in 1975. This represents an increase of 1.7% over the quantity processed in 1974, and also represents a record crude run.

The refinery operated to yield maximum quantities of the higher priced products, especially gasoline. The volume of gasoline produced increased, as a percentage of crude oil run, from 48.7% in 1974 to 52.5% in 1975. This was largely due to improved operation of the Fluid Catalytic Cracking Unit.

A comprehensive energy conservation program has been initiated to reduce refining energy costs. A 7.5% reduction in energy usage was effected in 1975 as compared with 1972.

Engineering studies have been initiated to upgrade the cracking and alkylation facilities in order to improve the yield of high-valued gasoline. The Manufacturing-Engineering Department has been strengthened and reorganized to this effect.

We are pleased to report a continuation of desirable employee-management relationships.



A general view of the Alma refinery

Supply & Transportation



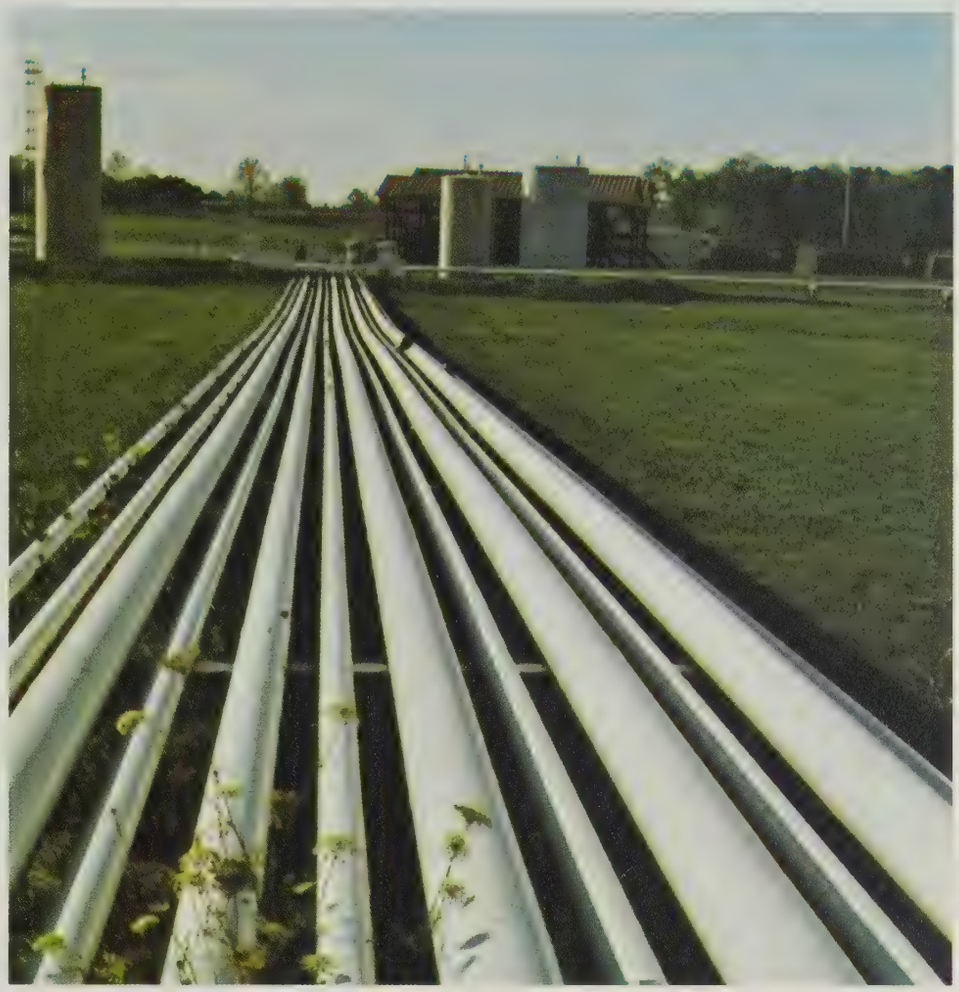
During 1975 crude oil was sufficient to meet programmed crude runs at the Alma refinery. Approximately 25% of the crude run was from Canadian sources versus 43% Canadian content in 1974. The remaining crude supply, 75%, was obtained from Michigan sources. This significant increase in crude oil from Michigan reflects the growth of production in the State, and the completion of additional purchase and exchange agreements. Some of the exchange agreements involve utilization of off-shore oil.

The average cost of crude oil available to the refinery was highly affected by the multi-tier price system resulting from government regulations (old oil, new oil, Canadian oil, off-shore oil). The inequities created by the multi-tier price system were partially corrected by the "old oil entitlements" program implemented by FEA in late 1974. This program helped to keep the refinery's net cost of crude oil close to industry's average. An entitlements program to meet the same objective is continuing under the new Energy Policy and Conservation Act.

As TOTAL markets more refined products than it manufactures, it was necessary to purchase from other companies 2.9 million barrels of gasoline in 1975. The contemplated expansion of gasoline production facilities discussed in the Refining report would significantly reduce product purchases.

The new 10-inch crude oil pipeline between Bay City and Alma was completed on schedule in 1975. The completion of this line now gives the necessary pipeline capacity to transport increased quantities of Northern Michigan crude oil to the refinery. The new line enabled the Company to abandon 110 miles of obsolete pipeline which has been environmentally troublesome in recent years.

This new pipeline represents the first stage of a three year modernization program for the TOTAL pipeline network.

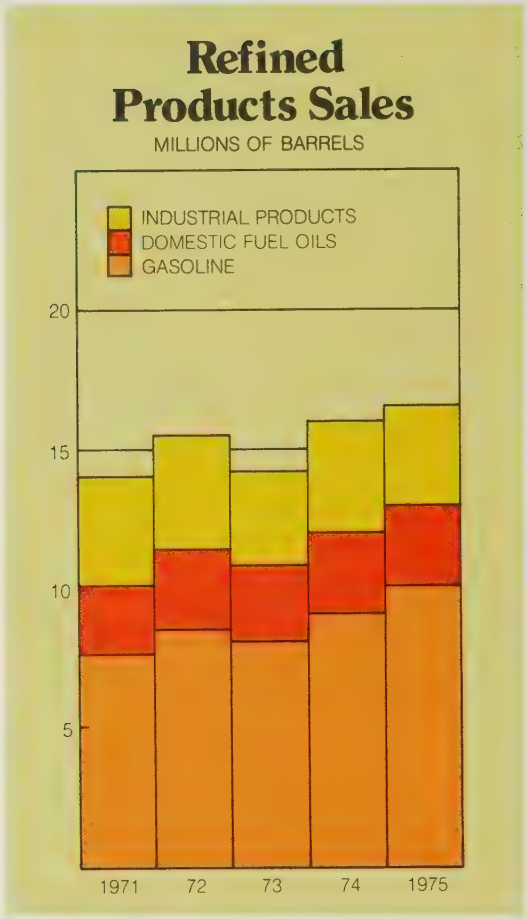


Lansing Terminal, Lansing, Michigan.



Alma pumping station for transporting products to Lansing and Bay City.

Marketing





Although the Industry's overall sales volume of refined products declined in 1975 from 1974, TOTAL'S 1975 overall sales volume was 3.6% higher than in 1974 and was at an all-time high. The bar chart shows that overall sales have risen steadily since 1971 with the exception of 1973, when availability of supply was limited due to the oil embargo. The upward trend was due mainly to increased sales of gasoline over the period, while the sale of fuel oils and industrial products fluctuated within a narrow range.

In 1975, the increase in overall sales was due entirely to an 11.3% increase in gasoline sales over 1974 as opposed to an estimated Industry increase of only 2-3%. Demand for unleaded gasoline continued its sharp upward trend with sales of this product accounting for 13% of TOTAL gasoline sales in December.

Fuel oil sales, which were essentially in balance with refinery production, were down 1.0% from 1974.

Sales of industrial products in 1975 fell by 11.3% as compared to 1974. This decline was due mainly to lack of demand for residual fuel oil and industrial diesel oil as a result of the downturn in the economy and to reduced demand for asphalts because of curtailed spending on highway construction.

Firming of gasoline prices during the summer months and of fuel oil prices during the latter part of the year, contributed to the steady profit improvement during the year.

In 1975, capital expenditures for Marketing, other than those of a sustaining nature, were almost entirely for modernizing existing, well-located service stations. The program was aimed at improving appearance and driveway facilities at the lowest possible cost, while creating an easily identifiable image for TOTAL. Examples may be seen in the accompanying photographs.





A typical service station before and after modernization.

Five-Year Review

OPERATIONS — EXPLORATION AND PRODUCTION:	1975	1974	1973	1972	1971
Crude oil and condensate (bbls.) — Canada					
Proven reserves at year-end	29,409,234	31,167,136	32,636,845	34,778,435	34,447,800
Probable reserves at year-end	6,821,735	7,532,893	8,172,753	9,249,714	8,953,739
Production during year	2,043,755	2,237,483	2,398,217	2,009,402	1,692,471
Crude oil and condensate (bbls.) — United States					
Proven reserves at year-end	3,505,099	1,195,465	791,707	1,081,066	—
Probable reserves at year-end	—	—	—	—	—
Production during year	180,880	70,051	14,890	19,209	4,098
Natural gas (thousands of cubic feet) — Canada					
Proven reserves at year-end	177,163,000	180,015,000	176,984,000	167,015,000	164,575,000
Probable reserves at year-end	68,820,000	71,342,000	51,498,000	39,198,000	40,230,000
Sales during year	5,418,425	5,824,511	4,882,617	4,437,506	4,128,975
Natural gas (thousands of cubic feet — United States					
Proven reserves at year-end	26,696,000	17,290,000	12,210,000	8,280,000	—
Probable reserves at year-end	—	—	—	—	—
Sales during year	2,564,855	644,955	—	—	—
Gross land holdings (acres) — Canada	32,566,402	33,530,527	35,671,636	38,354,588	38,503,155
Gross land holdings (acres) — United States	1,463,974	1,273,342	384,604	355,303	112,558
Net land holdings (acres) — Canada	3,241,492	3,794,671	4,058,812	4,093,242	4,357,945
Net land holdings (acres) — United States	507,708	409,012	207,885	197,525	78,390
OPERATIONS — REFINING AND MARKETING:					
Crude oil refined (bbls.)	13,728,523	13,493,860	13,566,316	11,091,413	11,084,578
Manufactured gasoline (bbls.)	7,213,452	6,568,476	7,234,849	4,892,496	4,717,467
Refined product sales (bbls.)	16,328,738	15,753,571	14,122,357	15,377,590	14,015,976
Gasoline sales (bbls.)	10,093,595	9,065,690	8,129,929	8,566,833	7,619,786
Service station owned or leased long term	220	233	250	312	330
TOTAL outlets	714	699	685	913	918
FINANCIAL (U.S. Dollars):					
Revenue:					
Net sales of refined products	$233,103,000	$206,803,000	$103,934,000	$ 94,912,000	$ 83,000,000
Net sales of crude oil and natural gas	14,512,000	10,451,000	7,611,000	5,506,000	4,570,000
Other income (expense)	395,000	2,132,000	(944,000)	748,000	767,000
	248,010,000	219,386,000	110,601,000	101,166,000	88,337,000
Costs and Expenses:					
Purchased crude oil, products and merchandise	182,094,000	173,645,000	61,869,000	62,175,000	54,273,000
Operating, marketing and administrative	37,122,000	32,126,000	28,831,000	27,980,000	25,385,000
Depreciation, depletion and amortization	8,837,000	7,705,000	6,930,000	5,977,000	5,395,000
Interest	3,109,000	2,601,000	3,767,000	3,429,000	3,385,000
Income taxes	7,850,000	1,441,000	4,071,000	500,000	29,000
	239,012,000	217,518,000	105,468,000	100,061,000	88,467,000
Net income (loss)	8,998,000	1,868,000	5,133,000	1,105,000	(130,000)
Dividends paid on Series A Preferred shares	846,000	851,000	859,000	861,000	863,000
Net income (loss) available to Common shares	$ 8,152,000	$ 1,017,000	$ 4,274,000	$ 244,000	$ (993,000)
Net income (loss) per share	$.70	$.10	$.51	$.03	$(.15)
Operating Income:(2)					
Exploration and Production	$ 7,617,000	$ 4,460,000	$ 2,692,000	$ 1,909,000	$ 1,448,000
Refining and Marketing	16,668,000	3,254,000	15,186,000	7,532,000	4,386,000
Unallocated administrative interest, income taxes and other	(15,287,000)	(5,846,000)	(12,745,000)	(8,336,000)	(5,964,000)
	$ 8,998,000	$ 1,868,000	$ 5,133,000	$ 1,105,000	$ (130,000)

	1975	1974	1973	1972	1971
Financial Resources Provided by Operations:(1)	$ 25,685,000	$ 11,014,000	$ 17,567,000	$ 8,249,000	$ 7,550,000
Financial resources by division:					
Exploration and Production	$ 12,613,000	$ 9,081,000	$ 6,375,000	$ 4,627,000	$ 3,694,000
Refining and Marketing	20,253,000	6,052,000	18,197,000	10,740,000	7,493,000
Other income	395,000	2,132,000	489,000	748,000	767,000
Administrative expenses	(4,467,000)	(3,650,000)	(3,727,000)	(5,104,000)	(3,275,000)
Interest expenses	(3,109,000)	(2,601,000)	(3,767,000)	(3,429,000)	(3,385,000)
Refundable income taxes	—	—	—	667,000	2,256,000
Capital expenditures:					
Exploration	$ 16,609,000	$ 18,490,000	$ 8,633,000	$ 5,525,000	$ 5,730,000
Production	3,239,000	1,419,000	612,000	752,000	254,000
Manufacturing	1,635,000	1,734,000	1,184,000	2,455,000	950,000
Supply and Transportation	4,573,000	1,515,000	883,000	1,264,000	1,482,000
Marketing	1,331,000	1,149,000	1,009,000	886,000	2,571,000
Administrative	243,000	247,000	371,000	23,000	170,000
	$ 27,630,000	$ 24,554,000	$ 12,692,000	$ 10,905,000	$ 11,157,000
(Long-term debt) ÷ (long-term debt + shareholders' equity)	.24	.19	.20	.37	.37
Shareholders' equity	$105,206,000	$ 97,054,000	$ 96,029,000	$ 69,845,000	$ 69,597,000
Shareholders' equity per share(3)	$7.82	$7.03	$6.92	$6.44	$6.41
Number of registered shareholders	7,450	7,511	8,091	7,112	7,568

Notes:

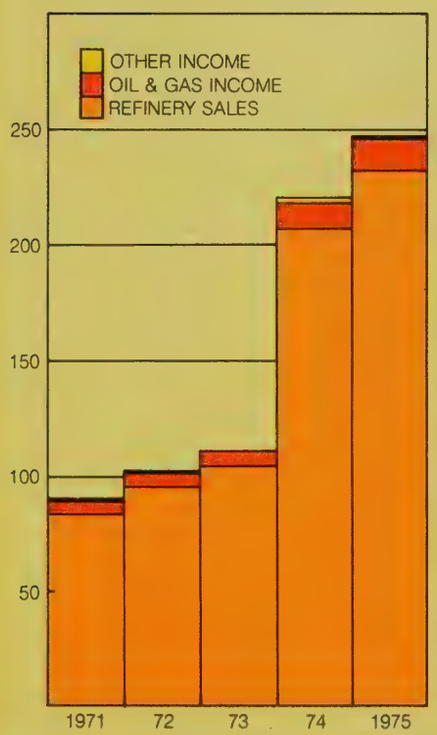
(1) Net income plus income charges not affecting working capital in the year. Refer to Consolidated Statements of Changes in Financial Position for other sources and uses of resources.

(2) Financial resources by division reduced by depreciation, depletion and amortization attributable to the division.

(3) Shareholders' equity in excess of par value of preferred shares divided by common shares outstanding at the end of the period.

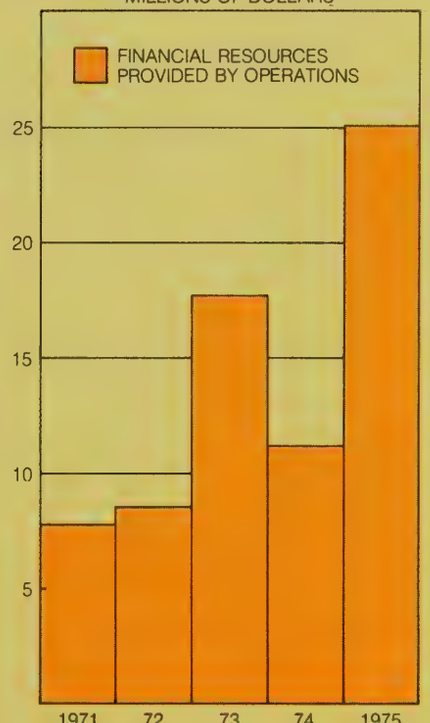
Gross Income

MILLIONS OF DOLLARS



Financial Resources Provided by Operations (*)

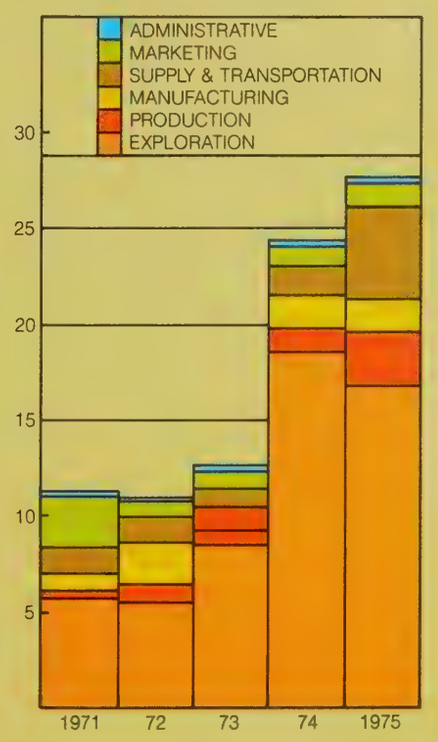
MILLIONS OF DOLLARS



See the five-year review and management discussion and analysis of the summary of operations appearing on pages 16 and 18 respectively.

Capital Expenditures

MILLIONS OF DOLLARS



Management Discussion & Analysis of Summary of Operations

The operating income of the Exploration and Production Division increased by 71% in 1975 after an increase of 66% in 1974. These increases were principally the result of higher net proceeds to the Company from its production which, volumetrically, remained essentially constant during the three year period. The majority of the Company's production is located in Canada where, because of government policies, net proceeds to producers increased at a lower rate and to a lower level than that generally experienced in the United States. The government policies also restricted crude oil production during the period.

These favorable revenue changes were partially offset by increased operating expenses and depletion provisions. Operating expenses increased by approximately $500,000 in 1975 from 1974 after a 10% increase over 1973. The 1975 increase is largely attributable to expenses associated with new wells coming into production during the 1974-1975 period. Depletion expense increased by approximately $900,000 in 1974 as compared to 1973 and an additional $350,000 in 1975. The large 1974 increase resulted from an increase in the depletion rate per equivalent barrel of production from $1.28 in 1973 to $1.59 in 1974. This rate is computed by dividing proven reserves into the accumulated undepleted cost of exploration and development. Natural gas reserves are included in the calculations by converting thousands of cubic feet to oil barrel equivalents based on their relative sales values.

Recent expansion of the Company's exploration program added an abnormally high amount of lease acquisition costs to the undepleted cost in 1974. The depletion rate for 1975 of $1.63 includes the favorable effect of increases in gas prices at a rate higher than that of oil prices. Thousands of cubic feet of gas were converted to barrels at year end 1974 in a ratio of 18 to 1; at year end 1975 the same ratio was 11 to 1.

The operating income of the Refining and Marketing Division reflects the unstable conditions in the U. S. petroleum industry in recent years. While sales volumes have increased during the past three years (11.6% from 1973 to 1974 and 3.6% from 1974 to 1975) the significant effect on operating income has been prices. During this period, particularly in 1974 and the last quarter of 1973, pricing for the entire industry progressively moved upward to new levels. 1973 and early 1974 was a period of relatively short supply and stable margins. Price competition returned to the refined products market in the latter part of 1974 and continued through mid 1975. Because the crude oil available to TOPNA included a ratio of price controlled "old" oil far below that of its chief competitors, TOPNA was unable to compete profitably at the market price levels in 1974. In 1975 the inequities of the "two-tier" crude oil price system were alleviated by the introduction of the crude oil cost equalization program. Costs for 1974 are $10,550,000 higher under the last-in, first-out inventory cost method adopted in 1974 than they otherwise would have been.

Expenses for the Refining and Marketing Division increased by approximately $4.4 million (14%) from 1974 to 1975 following an increase of approximately $3 million (11%) from 1973 to 1974. The majority of the 1974 increase was in refining expenses, resulting principally from increased wages and the high cost for scheduled refinery maintenance as compared with prior periods. The refinery expenses also increased because of increased gasoline additive usage necessitated by the diverting of high octane stocks from gasoline to military jet fuel and because of increased electrical energy costs. In 1975 increased wages and electrical energy costs throughout the division again were major contributors to the higher expenses. Price increases for refinery materials and additives offset the decrease in maintenance expense to a more normal level.

The decrease in interest expense in 1974 of 31% resulted from a decrease in the level of borrowed funds. Approximately $18,000,000 in long-term debt was prepaid in late 1973 with funds received from the sale of Common shares. New borrowings in 1975 caused an increase in expense.

The 1975 increase in administrative expense resulted from inflationary pressures on wages and related payroll taxes and benefits.

Other income (expense) for 1973 includes a provision for loss on disposal of retail properties of $1,650,000. Other income for 1974 also increased as compared to 1973 because of higher levels of interest earned on short term investments, the funds being partially provided by proceeds from the late 1973 sale of Common shares. The level of funds invested was significantly lower in 1975.



Painting by Michael Patterson, Wholesale Credit Manager at TOTAL

Total Petroleum (North America) Ltd. and Subsidiaries

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REGISTRARS
THE ROYAL TRUST COMPANY
Calgary, Regina, Winnipeg,
Toronto and Montreal, Canada
MORGAN GUARANTY TRUST COMPANY
OF NEW YORK
New York, N.Y.

TRANSFER AGENTS
MONTREAL TRUST COMPANY
Calgary, Regina, Winnipeg
Toronto and Montreal, Canada
MORGAN GUARANTY TRUST COMPANY
OF NEW YORK
New York, N.Y.

AUDITORS
PRICE WATERHOUSE & CO.

EXCHANGE LISTINGS
TORONTO STOCK EXCHANGE
MONTREAL STOCK EXCHANGE
AMERICAN STOCK EXCHANGE

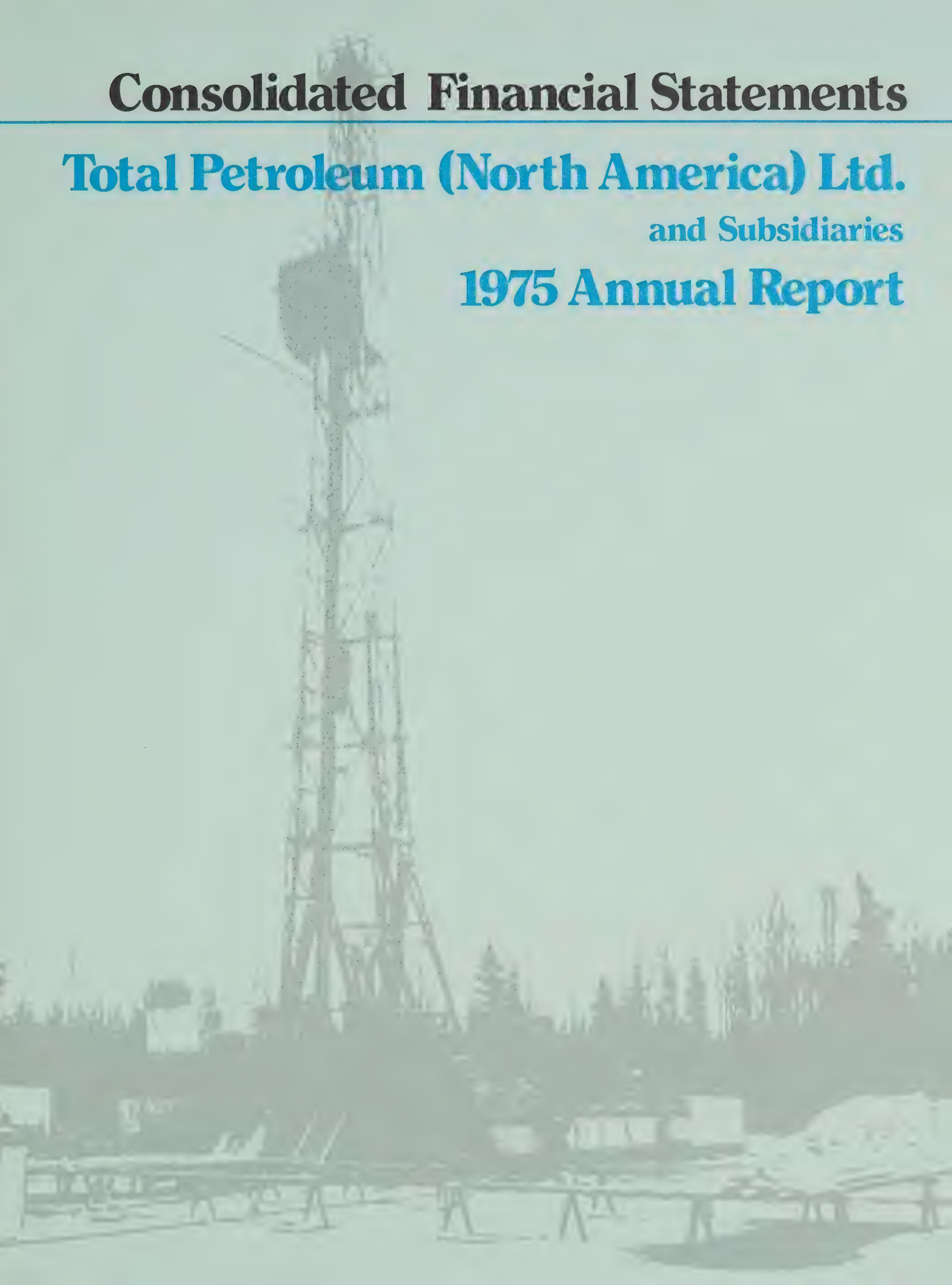
FORM 10-K and FORM S-14
Copies of the Company's annual report to the Securities and Exchange Commission on form 10-K and the recent registration statement on form S-14 are available without charge to any shareholder upon written request to the Treasurer at East Superior Street, Alma, Michigan 48801, U.S.A.

Consolidated Financial Statements

Total Petroleum (North America) Ltd.

and Subsidiaries

1975 Annual Report



Total Petroleum (North America) Ltd. and Subsidiaries

Report of Independent Accountants

To the Shareholders of
TOTAL PETROLEUM (NORTH AMERICA) LTD.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and retained earnings and of changes in financial position present fairly the financial position of Total Petroleum (North America) Ltd. and its subsidiaries at December 31, 1975 and 1974, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

Detroit, Michigan
February 3, 1976

Consolidated Statements of Income and Retained Earnings

(United States Dollars)

INCOME	Year Ended December 31	
	1975	1974
Revenue:		
Net sales of refined products	$233,103,000	$206,803,000
Net sales of crude oil and natural gas	14,512,000	10,451,000
Other income	395,000	2,132,000
	248,010,000	219,386,000
Expenses:		
Purchased crude oil, products and merchandise	182,094,000	173,645,000
Operating	20,746,000	17,789,000
Marketing and administrative	16,376,000	14,337,000
Depreciation, depletion and amortization	8,837,000	7,705,000
Interest on long-term debt	2,973,000	2,325,000
Other interest	136,000	276,000
Income taxes (Notes 1 and 4)	7,850,000	1,441,000
	239,012,000	217,518,000
Net income for the year	$ 8,998,000	$ 1,868,000
Net income per share (Note 6)	$.70	$.10
RETAINED EARNINGS		
Balance, beginning of year	$ 15,799,000	$ 14,782,000
Net income for the year	8,998,000	1,868,000
	24,797,000	16,650,000
Dividends on Series A Preferred shares	846,000	851,000
Balance, end of year	$ 23,951,000	$ 15,799,000

Total Petroleum (North America) Ltd. and Subsidiaries

Consolidated Balance Sheets

(United States Dollars)

ASSETS

	December 31	
	1975	1974
CURRENT ASSETS:		
Cash	$ 6,670,000	$ 5,691,000
Short-term investments	11,472,000	7,855,000
Accounts and notes receivable, less allowance for doubtful accounts of $614,000 (1974 - $454,000)	16,461,000	26,563,000
Inventories of purchased crude oil and products (Note 1)	17,057,000	17,067,000
Inventories of merchandise, materials and supplies (Note 1)	3,429,000	3,033,000
Prepaid expenses and other	1,706,000	2,714,000
	56,795,000	62,923,000
LONG-TERM RECEIVABLES AND OTHER ASSETS:		
Notes receivable	1,968,000	1,938,000
Other assets and deferred charges	227,000	297,000
	2,195,000	2,235,000
PROPERTY, PLANT AND EQUIPMENT (Notes 1 and 2)	186,961,000	169,973,000
Less—Accumulated depreciation, depletion and amortization	50,658,000	49,627,000
	136,303,000	120,346,000
	$195,293,000	$185,504,000

APPROVED ON BEHALF OF THE BOARD:

Director

Director

LIABILITIES, DEFERRED CREDITS AND SHAREHOLDERS' EQUITY

	December 31 1975	1974
CURRENT LIABILITIES:		
Accounts payable	$ 26,979,000	$ 45,392,000
Accrued taxes	3,194,000	2,997,000
Other accrued liabilities	1,695,000	1,235,000
Current portion of long-term debt (Note 3)	5,819,000	2,998,000
	37,687,000	52,622,000
LONG-TERM DEBT (Note 3)	32,956,000	22,485,000
DEFERRED CREDITS:		
Deferred income tax provision	17,675,000	9,825,000
Deferred production income and other	1,769,000	3,518,000
SHAREHOLDERS' EQUITY:		
Capital Stock (Note 5)		
Authorized—		
5,000,000 Preferred shares of $20 (U.S.) par value each, issuable in series, of which 1,303,000 shares have been designated as $.70 (U.S.) Non-Cumulative Preferred shares, Convertible Series A		
15,000,000 Common shares of the par value of $1 (Can.)		
Outstanding—		
1,208,009 Series A Preferred shares (1974 - 1,209,333)	24,160,000	24,187,000
10,368,701 Common shares (1974 - 10,366,053)	9,860,000	9,857,000
Contributed surplus (Note 5)	47,235,000	47,211,000
Retained earnings	23,951,000	15,799,000
	105,206,000	97,054,000
COMMITMENTS (Note 8)		
	$195,293,000	$185,504,000

Total Petroleum (North America) Ltd. and Subsidiaries

Consolidated Statements of Changes in Financial Position

(United States Dollars)

	Year Ended December 31	
	1975	1974
Financial resources were provided by:		
Operations—		
Net income for the year	$ 8,998,000	$ 1,868,000
Income charges not affecting working capital in the year:		
Depreciation, depletion and amortization	8,837,000	7,705,000
Deferred income taxes	7,850,000	1,441,000
Financial resources provided by operations	25,685,000	11,014,000
Additional long-term borrowings	16,866,000	2,042,000
Proceeds from sales of future production	432,000	2,511,000
Sales of properties	2,836,000	1,252,000
Issuance of Common shares	—	8,000
Other	—	24,000
Total financial resources provided	45,819,000	16,851,000
Financial resources were used for:		
Capital expenditures—		
Petroleum and natural gas interests and production equipment	19,848,000	19,909,000
Refining, marketing and transportation	7,539,000	4,398,000
Other	243,000	247,000
Long-term debt paid or reclassified to current liabilities	6,395,000	3,415,000
Dividends paid	846,000	851,000
Reduction of deferred income	1,925,000	5,682,000
Other	216,000	—
Total financial resources used	37,012,000	34,502,000
Increase (decrease) in working capital	$ 8,807,000	$(17,651,000)
Changes in components of working capital:		
Working capital, beginning of year	$ 10,301,000	$ 27,952,000
Increase (decrease) in current assets:		
Cash and short-term investments	4,596,000	(7,698,000)
Accounts and notes receivable	(10,102,000)	17,265,000
Inventories	386,000	(72,000)
Prepaid expenses and other	(1,008,000)	1,169,000
	(6,128,000)	10,664,000
(Increase) decrease in current liabilities:		
Accounts payable and other accrued liabilities	17,953,000	(27,414,000)
Accrued taxes	(197,000)	(161,000)
Current portion of long-term debt	(2,821,000)	(740,000)
	14,935,000	(28,315,000)
Working capital, end of year	$19,108,000	$10,301,000

1. ACCOUNTING POLICIES:

The significant accounting policies followed by the Company and its subsidiaries are presented here to assist the reader in reviewing the financial information contained in this report.

Principles of Consolidation—The consolidated financial statements include the accounts of all subsidiaries.

The Company presents the consolidated financial statements in United States dollars because the majority of the transactions, and the major portion of the working capital and long-term debt of the consolidated companies, are in that currency. Canadian assets and liabilities representing cash and amounts owing to or by the Company are translated at the rate of exchange in effect at the end of the period. Other assets (such as inventories and property, plant and equipment) and deferred credits are translated at historical rates. Operating results for the period are translated at the monthly average rate of exchange during the year; depreciation, depletion and amortization included in operating results are translated at historical rates. Exchange gains and losses are included in net income.

Inventories are valued at the lower of cost or net realizable value. Cost of inventories of crude oil and refined products is determined by the last-in, first-out method. Cost of inventories of merchandise, materials and supplies is determined by the first-in, first-out method with respect to merchandise and by the average cost method for materials and supplies.

Property, Plant and Equipment is carried at cost.

All costs of exploring for and developing oil and gas reserves are capitalized and charged to operations over the life of estimated future production (proven reserves) on the unit-of-production method. This method has been followed consistently by the Company since 1965 and by subsidiaries since dates of acquisition. Proceeds of disposals are applied in full against such costs.

Depreciation and amortization are provided using the straight-line method based on estimated useful lives of assets.

Income Taxes included in the consolidated financial statements are computed on the basis of (Reference is made to Note 4 for further details):

(i) not providing for taxes which would be payable upon transfer of undistributed earnings of subsidiaries since management believes that either such earnings will not be transferred in the foreseeable future or that no tax expense would be incurred because of available credits or deductions;

(ii) providing deferred taxes under the tax allocation method of accounting for income taxes whereby the provision for income taxes each year is computed on the basis of depreciation, depletion and certain other charges recorded in the accounts rather than the related amounts claimed as deductions in the companies' tax returns.

Investment tax credits are applied as a reduction of income tax expense in the period earned.

Excise Taxes collected from customers are excluded from the Consolidated Statements of Income.

Sales of purchased crude oil are deducted from the related purchases in the Consolidated Statement of Income.

Pension Plans cover substantially all of the Company's employees. Current cost and accruals for prior service costs (accrued over periods from 21 to 30 years) are funded currently.

Total Petroleum (North America) Ltd. and Subsidiaries

2. PROPERTY, PLANT AND EQUIPMENT:

Property, Plant and Equipment classified by functional groupings is as follows (see also Note 3 for debt secured by property):

	1975	1974
Petroleum and natural gas interests	$103,623,000	$ 87,863,000
Production equipment	7,527,000	6,289,000
Refining	22,748,000	21,420,000
Marketing	33,965,000	35,669,000
Supply and transportation	15,442,000	15,324,000
Other	3,656,000	3,408,000
	186,961,000	169,973,000
Less—accumulated depreciation, depletion and amortization*	50,658,000	49,627,000
	$136,303,000	$120,346,000

*Including accumulated depletion related to petroleum and natural gas interests of $20,754,000 and $18,849,000 at December 31, 1975 and 1974, respectively.

3. LONG-TERM DEBT:

The following summarizes the consolidated long-term debt:

Note payable in quarterly installments of $150,000 plus interest at prime rate plus 1% (maximum 9%) to September 1979	$ 2,250,000
First real estate mortgage notes due in quarterly installments of $125,000 to 1977 and $175,000 from 1978 to 1982, at prime rate plus 1%	4,500,000
Notes payable in annual installments of $600,000 to March 1, 1977, at 5⅝%	1,200,000
Note payable, due in quarterly installments of $100,000 plus interest at prime rate plus ¾% to September 1979 (certain oil and gas properties pledged)	1,500,000
Note payable on June 30, 1977 at prime rate plus 1¾% (maximum 8½%)	4,000,000
Note payable in monthly installments of $167,000 from September 1976 to August 1981 at prime plus ¾% (certain oil and gas properties pledged)	9,845,000
Notes maturing at $400,000 quarterly from March 1976 to June 1978 and $500,000 in September and December 1978 at prime plus 1½%	5,000,000
Other secured debt, at 4% to 9¼%	10,480,000
	38,775,000
Less, current maturities	5,819,000
	$32,956,000

Minimum annual maturities of long-term debt for the next five years are as follows:

1976—$ 5,819,000
1977—$10,812,000
1978—$ 6,960,000
1979—$ 4,262,000
1980—$ 3,515,000

At December 31, 1975 the Company or its subsidiaries had unused commitments from various banks for future borrowings aggregating $20,000,000. Borrowings under such agreements would be at interest rates from ½ of 1% to ¾ of 1% above prime. Commitment fees on the unused available credit are ½ of 1%. Under terms of the commitment agreements, $15,000,000 will expire in August 1976 and $5,000,000 in January 1977.

4. INCOME TAXES:

Under Canadian income tax law most exploration and development expenditures, including resource property acquisition costs, are deductible on various bases which generally have the effect of permitting such deductions to be made for tax purposes in advance of their being charged off in the books. Capital cost allowances for depreciable assets are also deductible in advance of depreciation charged in the accounts. Tax laws in the United States contain provisions which may have a similar effect. Canadian tax law additionally provides for a depletion allowance at 25% of "resource profits" subject to a limit of $1 of allowance for every $3 of "eligible expenditures". As a result, no income taxes were actually payable for 1975 although, as explained in Note 1, provision has been made in the accounts for the taxes deferred as a result of such deductions exceeding expenses charged in the income statement.

At December 31, 1975 the Company had the following approximate deductions and credits available to reduce taxes which would otherwise be payable in future years:

Canada	
Exploration and development expenditures	$4,000,000
Capital costs	3,000,000
Depletion allowance	2,000,000
United States	
Tax operating loss	3,500,000
Investment tax credits (including $700,000 earned in 1975)	1,000,000

Upon utilization, the benefits of these carryforwards will be credited to the deferred income tax provision in the balance sheet.

Royalty and similar payments to governments, aggregating approximately $7,000,000 in 1975 and $4,000,000 in 1974, are not deductible for Canadian federal income tax purposes. The resulting increase in taxes otherwise payable is substantially offset by special allowances at the federal and provincial levels.

In late 1974 proposed Canadian tax legislative amendments were announced. This legislation has now been enacted but uncertainties remain in certain areas as to regulatory interpretation. Accordingly, the Company has provided for deferred taxes based on prevalent industry projections of the eventual regulations.

At December 31, 1975 and 1974 undistributed earnings of subsidiaries amounted to $24,021,000 and $18,659,000, respectively. Taxes payable upon distribution, which would amount to approximately 15%, have not been provided since management believes that either such earnings will not be distributed in the foreseeable future or that no tax expense would be incurred because of available credits or deductions.

5. CAPITAL STOCK, CONTRIBUTED SURPLUS AND SHARE OPTIONS:

Changes in issued capital stock and contributed surplus are summarized below:

	Par Value		
	Series A Preferred Shares	Common Shares	Contributed Surplus
Balance, January 1, 1974	$24,549,000	$ 9,819,000	$46,879,000
Conversion of 18,103 Series A Preferred shares into 36,206 Common shares	(362,000)	37,000	325,000
Exercise of stock options (1,000 shares)	—	1,000	7,000
Balance, December 31, 1974	24,187,000	9,857,000	47,211,000
Conversion of 1,324 Series A Preferred shares into 2,648 Common shares	(27,000)	3,000	24,000
Balance, December 31, 1975	$24,160,000	$ 9,860,000	$47,235,000

Each Series A Preferred share is convertible at any time, at the option of the holder into Common shares at the rate of two Common shares for each Series A Preferred share converted, such rate of conversion being subject to adjustment in specified circumstances. Series A Preferred shares may be redeemed by the Company after December 31, 1975 at $20 per share.

During 1975 the Board of Directors of the Company, subject to shareholder approval, authorized the issuance of options to purchase 300,000 of the Company's common shares. Under the plan, options may be granted to officers and employees through November 30, 1980. Holders of options may exercise at any time within five years of the date of grant but only while they continue to be employees. No charges to income were made in connection with the options because the exercise price is fair market value at the date granted. At December 31, 1975, options to purchase 188,000 shares at $4.75 per share were outstanding to employees (90,000 to senior officers) and 112,000 shares were available for granting of options. The outstanding options expire on December 11, 1980.

6. EARNINGS PER SHARE:

Earnings per share reflected in the statement of income are calculated pursuant to United States practice rather than Canadian practice since this results in more conservative amounts (referred to as "fully diluted earnings per share" under Canadian practice).

Earnings per share for 1975 are computed on the weighted average of the Common shares outstanding during the period plus common equivalent shares represented by shares issuable upon conversion of Series A Preferred shares. For 1974, earnings per share are based only on the weighted average of Common shares outstanding because common equivalent shares were antidilutive. Dividends on the Series A Preferred shares are deducted from net income in 1974 in calculating earnings per share. The dilutive effect of share options was insignificant in both 1975 and 1974. The average shares used in calculation of earnings per share was as follows:

	1975	1974
Common shares	10,367,490	10,350,399
Assumed conversion of Series A Preferred shares	2,417,229	—
	12,784,719	10,350,399

Basic earnings per share, pursuant to Canadian practice, are calculated as described above for the 1974 amount and were $.79 for 1975. Dividends paid to the Series A Preferred shareholders aggregated $846,000 in 1975, and $851,000 in 1974.

7. PENSION PLANS:

Pension expense for all plans was $1,335,000 in 1975 and $860,000 in 1974. Unfunded prior service costs aggregated $2,200,000 at December 31, 1975.

8. COMMITMENTS:

The present value of future rentals under all long-term agreements (excluding leases of oil and gas properties) approximates $9,400,000 at December 31, 1975. Minimum annual rental payments on the above leases are approximately $1,200,000 per year through 1980, $950,000 per year for 1981 through 1985, $450,000 per year for 1986 through 1990 and $275,000 per year for 1991 through 1993.

Aggregate rental expense, including short-term rentals but excluding leases of oil and gas properties was $1,785,000 in 1975 as compared to $1,791,000 in 1974.

Amounts included above related to certain long-term lease agreements are as follows:

Types of Property Leased	Present Value of Future Rentals	Expiration Dates	Average Interest Factor
Manufacturing facilities	$4,927,000	1987	7.0%
Pipeline and storage facilities	2,703,000	1993	6.5%
Marketing properties	576,000	1976-1990	5.8%
	$8,206,000		

If these leases were capitalized, the effect on net income would not be significant.

9. STATUTORY INFORMATION:

The total direct remuneration of directors and senior officers of the Company in 1975 was as follows:

	Directors		Officers		Officers who are also Directors
	No.	Amount	No.	Amount	
Total Petroleum (North America) Ltd.	10	$32,850	4	$145,000	
TOTAL Leonard, Inc.	—	—	4	257,900	1
	10	$32,850	8	$402,900	1

10. RELATED PARTY TRANSACTIONS:

During 1975 the Company purchased crude oil at market prices from Total International Limited, a wholly owned subsidiary of Compagnie Française des Pétroles ("CFP"), a French corporation which owns approximately 48% of the voting shares of the Company. The aggregate of such purchases was $34,200,000, there being no balance owing at the end of the year. Similar purchases during 1974 resulted in an account payable at December 31, 1974 of $24,263,000.

The Company participates in a joint venture exploring for hydrocarbons with six other companies, one of which is a wholly-owned subsidiary of CFP and operator of the venture. In 1975 the Company incurred costs aggregating approximately $1,500,000 attributable to its 5% interest in this venture off-shore Labrador.

11. PENDING MERGER:

On December 16, 1975 the Company and Hanover Petroleum Corporation announced that the boards of directors of the respective corporations approved a revised merger agreement whereby Total Petroleum will acquire all of the assets and liabilities of Hanover. The merger is subject to the approval of the shareholders of both companies.

Under the terms of the agreement, the Company will exchange $6.40 in cash, $6.40 principal amount of new 11.5% debentures, six-tenths of a warrant to purchase one of the Company's common shares at $10 and either an overriding royalty interest in certain properties or an additional $1.25 in cash for each of Hanover's 2,717,915 outstanding shares.

Total Petroleum (North America) Ltd. and Subsidiaries

Directors and Officers

Name	Office	Principal Occupation
James W. Glanville	Director and Chairman of the Board	Senior Managing Director of Lehman Brothers, Inc.; New York, N.Y.
Philippe Dunoyer	Director and President	President of TOPNA; President and Director of TOTAL Leonard, Inc.; Alma, Michigan
Reid Brazell	Director	Formerly Chairman of the Board and Chief Executive Officer of TOPNA and of TOTAL Leonard, Inc.; now retired; Frankfort, Michigan
Martin E. Citrin	Director	Petroleum Marketing Consultant, Bloomfield Hills, Michigan
F. Campbell Cope, Q.C.	Director	Partner of the legal firm of Ogilvy, Cope, Porteous, Montgomery, Renault, Clarke & Kirkpatrick; Montreal, Quebec
Etienne L. Dalemont	Director	Chairman of the Company from November, 1971 to May, 1973; former Managing Director of Compagnie Française des Pétroles; Paris, France
Joseph-Camille Genton	Director	Director of Finance for Compagnie Française des Pétroles; Paris, France
Andre M. Jacqmin	Director	Director of Operational Planning and Control for Compagnie Française des Pétroles; Paris, France
Linden J. Richards	Director	Oil and Gas Exploration Consultant; Chairman of the Board of Quintana Exploration Co.; Calgary, Alberta
David L. Torrey	Director	Senior Vice-President and Director of Pitfield, Mackay, Ross & Company Limited, Inc.; Montreal, Quebec
Philippe Magnier	Vice-President	Vice-President — Exploration and Production of TOPNA; Calgary, Alberta
Paul H. Gutknecht	Vice-President and Treasurer	Vice-President — Finance and Treasurer of TOPNA; Alma, Michigan
Robert R. Dean	Vice-President	Vice-President — Manufacturing, Supply and Transportation of TOPNA; Alma, Michigan
John E. Fawke	Vice-President	Vice-President — Marketing of TOPNA; Detroit, Michigan
William G. Tucker	Vice-President and Secretary	Vice-President — Administration, Secretary and General Counsel of TOPNA: Calgary, Alberta
Roger H. Edmunds	Vice-President	Vice-President — Exploration, Calgary Division of TOPNA; Calgary, Alberta
William F. Kellock	Vice-President	Vice-President — Production of TOPNA; Calgary, Alberta
Don W. Godfrey	Assistant Secretary	Assistant Secretary of TOPNA; Alma, Michigan
Colin S. MacDonald	Assistant Treasurer	Assistant Treasurer of TOPNA; Calgary, Alberta
Clifton D. Bengtson	Assistant Secretary	Assistant Secretary of the TOPNA; Calgary, Alberta



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TOTAL PETROLEUM (NORTH AMERICA) LTD.

TOTAL

INTERIM REPORT

SIX MONTHS ENDED JUNE 30

1975

TO THE SHAREHOLDERS:

FINANCIAL

During the first half of 1975 net income amounted to $2,539,000, or 20¢ per share. Net income for the corresponding period of 1974, after restatement to give effect to retroactive adoption of LIFO inventory costing, was $8,000, representing a net loss of 4¢ per share after deduction of dividends paid on the Series A Preferred Shares.

Net income for the second quarter was $2,047,000 or 17¢ per share, up from a restated $177,000 in the same quarter of 1974.

The improved income of the second quarter was the result of higher gasoline prices, while crude costs were kept close to industry's average by the entitlements program. This program was established to correct the inequities of the two-tier price system for crude oil in the United States.

EXPLORATION AND DEVELOPMENT

During the first half of the year, your Company drilled or participated in the drilling of 25 exploratory wells in Western Canada and in Illinois, Michigan and the Gulf of Mexico offshore in the United States. Twenty-two of these tests were conventional exploratory wells which resulted in four gas discoveries, five oil discoveries and thirteen dry holes. Five of the dry holes were on farmouts in which your Company was carried without cost. Three wells were drilled on heavy oil prospects, two in the Frog Lake area of Alberta and the other in the North Battleford area of Saskatchewan. Three wells were drilling at the end of the period.

Michigan exploration during the first six months resulted in two significant discoveries in the Pleasanton area of Manistee County. They are Baugh No. 1 - 36 well in Township 24 North, Range 15 West and the State Bear Lake No. 3-23 well in Township 23 North, Range 15 West, located some 30 miles northeast of the Hamlin Lake Field. Both wells should readily make the 300 BOPD per well allowable and are indicated to have substantially added to TOTAL'S oil and gas reserves in Michigan. Your Company has a good land spread in the Pleasanton area and seismic mapping has uncovered additional anomalies which are expected to be drilled in the near future. In the Hamlin area of Mason County, two new small oil-bearing reefs were found, while at the opposite end of the Northern Michigan Reef Trend, some 125 miles to the northeast in Montmorency County, your Company participated in a gas discovery at the Stella Maris No. 1 - 29 well. TOTAL also participated (with a minor interest) in an oil discovery in Wexford County, and in five exploratory dry holes in Michigan during this period.

Three minor gas discoveries were made during the first half of this year in the Dixonville, Craigend and Pelican areas of Alberta, all being extensions to existing accumulations. In the Gulf of Mexico (offshore Mississippi, Alabama, and Florida), the group with which your Company is participating has abandoned two tests and was drilling on a third block at the end of the period. In Illinois, your Company participated in two wells, both of which were abandoned.

Drilling is planned for the second half of the year on the 23,040 gross acres acquired earlier this year in a Federal Sale of tracts in the offshore South Texas area. Your Company has a 10% interest in four separate lease blocks on this play.

A very aggressive 1975 drilling program has been planned by the Labrador Offshore Group in which your Company owns a 5% interest. The drilling of three to four wells on widely scattered structures, separate from the previous successes, has been planned to help evaluate the 28,500,000 acre permit area. The first well of the 1975 drilling program was spudded by the drillship Pelican just after the close of the period under review. In addition, a second drillship, the Sedco 445, was employed for the season and commenced operations in the latter part of July.

PRODUCTION

Production of crude oil and condensate during the first six months of this year continued to be affected by prorationing in Canada, and decreased by 8% to 1,064,788 barrels (5,882 barrels per day) compared with 1,158,980 barrels (6,403 barrels per day) produced during the corresponding period of 1974. Natural gas sales increased by 31.5% to an average of 21,543 MCF per day compared with 16,368 MCF per day during the first half of last year.

The regulated crude oil price in Canada was increased by $1.50 to an average of $8.00 per barrel effective July 1, 1975 and increases in natural gas prices are also expected during the next few months as initial steps toward the ultimate achievement of price parity with oil. However, because of the continued high tax and royalty rates imposed by the Federal and Provincial governments, these price rises will reflect relatively small increases in after-tax income to oil and gas producing companies in Canada.

REFINING

During the first half of 1975, the Alma Refinery processed 6,675,153 barrels (36,879 BPD) of crude oil compared to 6,220,937 barrels (34,370 BPD) for the same period in 1974. Approximately 75% of the crude oil processed was domestic crude and 25% was of Canadian orgin.

The construction of the new crude oil line from the Interprovincial Pipeline Terminal at Bay City to the Alma Refinery is on schedule and should be completed by October 1st. When the new crude oil line is commissioned, 110 miles of obsolete, high operating cost line will be taken out of service.

MARKETING

United States pricing and mandatory refined product allocation regulations continued in effect throughout the period. However, the future of the regulations beyond August 31st is now in doubt due to the legislative and executive branches of the U.S. government being unable to agree on a unified course of action.

Overall refined product sales during the first six months were up 2.6% over the same period of 1974. Second quarter sales were up 10% compared with the same quarter of 1974. This increase was due to a marked increase in demand for gasoline through all channels, which was partially offset by a decrease in demand for asphalt and residual fuels.

Despite a softening of prices for asphalt and residual fuels, refining and marketing profits improved in the second quarter largely due to impoved prices for gasoline.

The poor performance in asphalts and residual fuels reflects the effect of the downturn in the economy. This led to a restriction in the funds available for highway construction and a fall-off in the consumption of industrial fuels.

Marketing expenses for the first six months were up only 6% compared with the same period of 1974 despite inflationary pressures.

GENERAL

In your Company's previous interim report covering the first quarter of 1975 it was reported that an agreement in principle had been reached by Total Petroleum (North America) Ltd. and Hanover Petroleum Corporation for the merger of Hanover into a U.S. subsidiary of Total Petroleum. Your directors are now pleased to alvise that a definitive merger agreement has been approved by the Boards of both companies substantially on the terms as previously outlined. A prospectus is being prepared for distribution to the shareholders and it is anticipated that special general meetings will be called in the near future for the consideration of this matter by the shareholders of both companies.

At a meeting of the Board of Directors of your Company held on July 24, 1975 Mr. Philippe Dunoyer was elected President of the Company, succeeding Mr. Andre M. Jacqmin who has accepted a new assignment with Compagnie Française des Pétroles in Paris, France. Mr. Jacqmin's intended resignation and Mr. Dunoyer's proposed election were previously announced in March of this year. Mr. Jacqmin will continue to serve as a director of the Company.

At the same meeting of the Board, Mr. Philippe Magnier was appointed Vice President, Exploration and Production of the Company, effective September 1, 1975.

On behalf of the Board of Directors,

PHILIPPE DUNOYER
President

August 25, 1975

OPERATING AND LAND DATA

	Six Months Ended June 30	
	1975	*1974*
Crude oil and condensate production (bbls.)	1,064,788	1,158,980
Average bbls. per day	5,882	6,403
Natural gas sales (Mcf)	3,899,392	2,962,624
Average Mcf per day	21,543	16,368
Refined products sales (bbls.)	7,699,024	7,513,976
Crude oil refined (bbls.)	6,675,153	6,220,937
Gross land holdings (acres)	34,414,718	36,402,031
Net land holdings (acres)	3,863,586	4,261,105

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(United States Dollars)

	Six Months Ended June 30	
	1975	1974 (restated)
Financial resources were provided by:		
Operations —		
Net income for the period	$ 2,539,000	$ 8,000
Income charges (credits) not affecting working capital in the period:		
Depreciation, depletion and amortization	3,910,000	3,934,000
Deferred income taxes	2,337,000	6,000
Financial resources provided by operations	8,786,000	3,948,000
Additional long-term borrowings	6,530,000	26,000
Proceeds from sale of future production	237,000	1,175,000
Sale of properties	740,000	629,000
Issuance of common stock	—	8,000
Other	—	809,000
Total financial resources provided	16,293,000	6,595,000
Financial resources were used for:		
Capital expenditures —		
Petroleum and natural gas interests and production equipment	8,595,000	7,800,000
Refining, marketing and transportation	3,764,000	1,131,000
Other	79,000	10,000
Long-term debt paid or reclassified to current liabilities	2,638,000	2,106,000
Dividends paid	423,000	427,000
Reductions of deferred income	1,227,000	2,307,000
Other	2,000	—
Total financial resources used	16,728,000	13,781,000
Decrease in working capital	$ (435,000)	$ (7,186,000)
Changes in components of working capital:		
Working capital, beginning of period	$ 10,301,000	$ 27,951,000
Increase (decrease) in current assets:		
Cash and short-term investments	(5,793,000)	(7,357,000)
Accounts and notes receivable	(12,344,000)	15,088,000
Inventories	(1,044,000)	6,784,000
Other	(1,003,000)	426,000
	(20,184,000)	14,941,000
(Increase) decrease in current liabilities:		
Notes payable	(4,500,000)	(2,000,000)
Accounts payable and other accrued liabilities	24,937,000	(17,888,000)
Accrued taxes	(243,000)	(1,973,000)
Current portion of long-term debt	(445,000)	(266,000)
	19,749,000	(22,127,000)
Working capital, end of period	$ 9,866,000	$ 20,765,000

CONSOLIDATED STATEMENTS OF INCOME

(United States Dollars)

	Six Months Ended June 30	
	1975	1974 (restated)
Revenue:		
Sales and other income	$109,096,000	$100,340,000
Costs and expenses:		
Purchased crude oil, products and merchandise	81,563,000	79,510,000
Operating	9,670,000	8,323,000
Marketing and administrative	7,740,000	7,261,000
Depreciation, depletion and amortization	3,910,000	3,934,000
Interest	1,337,000	1,298,000
Provision for income taxes	2,337,000	6,000
	106,557,000	100,332,000
NET INCOME (LOSS) FOR THE PERIOD	$ 2,539,000	$ 8,000
NET INCOME (LOSS) PER SHARE	$.20	$(.04)
Average outstanding shares	12,784,719	10,340,214
THREE MONTHS ENDED JUNE 30th:		
Sales and other income	$ 59,598,000	$ 53,534,000
Provision for income taxes	$ 2,116,000	$ 565,000
NET INCOME FOR THE PERIOD	$ 2,047,000	$ 177,000
NET INCOME PER SHARE	$.17	—
Average outstanding shares	12,784,719	10,349,580

NOTES: Net income per share for the 1975 period is computed assuming full conversion of Series A Preferred shares into Common shares. Net loss per share for the 1974 period is based on the weighted average of Common shares outstanding in the period. Dividends on the Series A Preferred shares are deducted from net income in the calculation. Common equivalent shares were antidilutive in the period.

Dividends to the Series A Preferred shareholders were at the rate of 35 cents per share for each of the six month periods and aggregated $423,000 for 1975 and $427,000 for 1974.

The Company's U.S. subsidiary adopted the last-in, first-out (LIFO) inventory costing method in 1974, retroactive to January 1. The accounts for the interim periods of 1974 have been restated to give effect to this retroactive change. Net income as originally reported for the six and three month periods of 1974 was $4,990,000 ($.39 per share) and $1,532,000 ($.12 per share), respectively.

The financial statements include all normal adjustments and accruals, but are unaudited.

LITHOGRAPHED IN CANADA